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How impact investing firms are responding to sustain and grow social economy enterprises in light of the COVID-19 pandemic

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ABSTRACT

The COVID-19-induced disruptions have hardest hit social economy enterprises. While impact investing is considered a promising vehicle to stimulate and grow social economy enterprises, little is known about how impact investors are actually responding to sustain and grow social economy enterprises amidst the COVID-19 pandemic. We find that impact investors sacrifice additional financial returns in pandemic-focused impact investments where they see the potential for attaining significantly higher than usual social impact by protecting hundreds of vulnerable social economy enterprises and beneficiaries amidst the pandemic. We also find that guarantees are introduced as an innovative impact investment instrument to tackle the pandemic, although they have remained heavily underutilized. Furthermore, debt instruments tend to dominate in pandemic-focused impact investments. Finally, in response to the pandemic, impact investors emphasize developing and strengthening a supportive social impact ecosystem to protect both portfolio and non-portfolio social economy enterprises and their beneficiaries. We also explain how the impact investing market has evolved during pandemic times and how it might evolve post-pandemic to support social economy enterprises.

1. Introduction

Social economy enterprises (e.g., social enterprises, cooperatives, charities, and credit unions) play vital roles in contributing to United Nations Sustainable Development Goals by tackling global problems such as extreme poverty, social and economic inequalities, and homelessness (OECD, 2020; Seelos and Mair, 2005). However, while scaling their social impact (Islam, 2020a), a major challenge social economy enterprises face is the lack of access to finance (Lyon and Owen, 2019; Sunley and Pinch, 2012). Impact investing is considered a promising vehicle to address this challenge, thus stimulating and growing social entrepreneurship and social economy enterprises (Chen and Harrison, 2020; Muñoz and Kimmitt, 2019). Impact investing refers to investments made into organizations, funds, and/or projects with the intention to generate measurable positive social impact alongside financial returns (Höchstädter and Scheck, 2015; Islam and Scott, 2022). Impact investors contribute to the growth of social economy enterprises by providing financial and nonfinancial support (Islam, 2022a; Nicholls, 2010).

However, the COVID-19 pandemic has caused unprecedented social and economic disruptions worldwide, and social economy enterprises are the ones that have been hardest hit by the disruptions (Nonprofit Network, 2020; Social Enterprise UK, 2020). While the pandemic has increased the need for financing social economy enterprises (Bacq et al., 2020), many of them may not be able to accept new funding with regular financial terms due to their deteriorating financial health. Furthermore, social economy enterprises receiv-

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ing impact investments are required to fulfill several nonfinancial obligations (e.g., quarterly impact data collection and reporting requirements) (Islam, 2022a). In the pandemic context, fulfilling such nonfinancial obligations has become very challenging for such enterprises due to their diminished human and financial resources (Social Enterprise UK, 2020). Thus, impact investors might need to alter their regular investment practices to better support the crisis-hit social economy enterprises.

However, little research exists on impact investors' responses to the COVID-19 pandemic. The current paper addresses this issue. This research is important because a better understanding of impact investors' responses to the COVID-19 pandemic could provide valuable insights into the evolution of the impact investing market (Hehenberger et al., 2019) during pandemic times and whether and how *pandemic-focused* impact investment practices might differ from *general* impact investment practices.[1] Such insights could enable social economy enterprises, impact investors, governments, and other stakeholders to better prepare for future crisis events.

Drawing on data collected from several secondary sources, including the Dow Jones Factiva database, this study makes several contributions. First, a few studies have highlighted the urgency of financing social economy enterprises in light of the pandemic (Bacq et al., 2020; Farhoud et al., 2021). We add to this literature by providing insights into the types of financial and nonfinancial activities impact investors are undertaking to support the pandemic-hit social economy enterprises and social economy broadly. Second, by focusing on funders' actions (rather than social economy enterprises' actions), it also responds to the call for increasing our understanding of "the other side of the coin" (Smith and Bergman, 2020, p. 2) in the social economy space. Third, we contribute to the growing research that examines issues around impact investing as a vehicle to stimulate and grow social economy enterprises (Chen and Harrison, 2020; Islam, 2022a; Muñoz and Kimmitt, 2019). Finally, we contribute to the literature on the evolution of the impact investing market (Hehenberger et al., 2019; Tekula and Andersen, 2019) by providing an account of the evolution of the market during pandemic times and by explaining its potential evolution post-pandemic.

2. Research methods

The current study uses publicly available data collected by following a multi-step process. First, to obtain a preliminary understanding of impact investors' COVID-19 responses, we conducted a Google search with the following keywords in several combinations: impact investing, impact investor, COVID-19 response, and COVID-19 initiative. We gradually learned that the Global Impact Investing Network (GIIN) started accumulating the response initiatives its members undertook to address COVID-19. Accordingly, we visited GIIN's website[2] and identified and downloaded 37 articles regarding impact investors' responses to the pandemic.

Next, we employed the Dow Jones Factiva database to locate additional articles on how impact investors worldwide are responding to COVID-19. We searched the following keywords in several combinations: impact investing, impact investor, COVID-19 response, and COVID-19 initiative. We used the following exclusion criteria to identify relevant articles: i) duplicate articles between the Factiva database and the 37 articles already sourced from step 1, and ii) articles that did not elaborate on or contain significant information about impact investors' activities in response to the pandemic. After performing a manual screening and using the above exclusion criteria, we identified additional 16 relevant but non-duplicated articles. Thus, the final data contains 53 articles (see Appendix 1 for a sample data article) whose accuracy was cross-validated by visiting the official website of the respective impact investing firms.

Given limited prior research on impact investors' responses to the pandemic, we adopted an inductive research approach (Strauss and Corbin, 1997). Accordingly, data were analyzed following established procedures for inductive approaches for analyzing qualitative data (Gioia et al., 2013; Miles et al., 2014). First, each article was read and re-read to understand the context of each response initiative undertaken by impact investors to address the pandemic. Second, data were analyzed to identify broader conceptual categories underlying impact investors' COVID-19 responses. This process was iterative rather than linear, which continued until no new categories emerged. This analysis revealed five broader types of work undertaken by impact investors to respond to the pandemic: financial, technical, intelligence, coalition, and advocacy (see Table 1). We then further analyzed the data to identify key insights within each of the five types of work (see Table 1).

We also collected data about impact investors' target or actual financial returns associated with general impact investments and their general nonfinancial work from a combination of the Dow Jones Factiva database, Company website, and other relevant websites. We then compared these data with pandemic-focused impact investment data to identify differences and similarities between pandemic-focused and general impact investment practices.

3. Findings

3.1. Sacrificing additional financial returns in pandemic-focused impact investments

Our first major finding is that impact investors sacrifice higher financial returns in pandemic-focused impact investments than general impact investments (see Table 2). For example, Big Society Capital's target return is 2–4% in low-growth businesses, while it has much higher return expectations in high-growth businesses. Differing from its financial return expectations from general impact investments, Big Society Capital has launched a debt capital fund of £100 million, *with no* fees *or interest for* 12 months, to help social economy enterprises that are unable to receive government-sponsored COVID-19 funds [Article #2].[3]

[1] Here, "general" impact investments refer to the ones that are made without any reference to the COVID-19 pandemic. "Pandemic-focused" impact investments refer to the ones that are made with an explicit reference to the COVID-19 pandemic.

[2] https://thegiin.org/covid19.

[3] It refers to the article number in our data from where the relevant example has been drawn.

Table 1
Data analysis.

- Financial work (where impact investors are offering financial support to investee organizations)
  - Sacrificing higher financial returns
  - Guarantees are introduced as an innovative impact investment instrument to tackle the pandemic
  - Debt instruments dominate in pandemic-focused impact investments
- Technical work (where impact investors are offering technical assistance to investee organizations)
  - Immediate business needs: impact investors are providing technical assistance to investees regarding their immediate business needs to help them navigate the current crisis
  - Future business needs: impact investors are providing technical assistance to investees regarding their future business needs to help them thrive post-crisis
- Intelligence work (where impact investors are systematically collecting and sharing critical information on various COVID-19-related issues to support and protect various groups amidst the pandemic)
  - Investor level: impact investors are collecting and sharing intelligence on investors' plan to deploy emergency capital and other resources to address the COVID-19 crisis
  - Investee level: impact investors are collecting intelligence to better comprehend the effect of the pandemic on the investee organizations
  - Beneficiary level: impact investors are gathering intelligence on the experience of beneficiaries suffering from the pandemic with the goal of supporting and protecting them
- Coalition work (where impact investors are building a formal or informal alliance with other investors and/or investees to tackle the problems caused by the pandemic)
  - Specific-purpose coalitions: coalitions are focused on addressing a specific COVID-19-related problem
  - General-purpose coalitions: coalitions are formed to facilitate wide-ranging collaborations to tackle the pandemic
- Advocacy work (where impact investors are influencing different parties to protect the wellbeing of various groups in COVID-19 times)
  - Government level: impact investors are influencing public policymakers to develop government policy responses to COVID-19 in favor of a specific social economy
  - Investee level: impact investors are influencing their portfolio companies to protect the wellbeing of their workforces amidst the pandemic
  - Beneficiary level: impact investors are raising greater public awareness with an overarching goal of supporting and protecting vulnerable beneficiaries and communities that have been disproportionately affected by the pandemic

As a second example, unlike the financial returns that Ceniarth usually expects from its general impact investments, it has committed $3 million loans, with *zero interest for the first six months and 0.5% interest after that for two-year terms*, to support the social economy enterprises located in hardest-hit communities in the USA [Article #5].

While all impact investors focus on both financial returns and social impact, they can be loosely categorized into either impact-first or finance-first investors based on the weight they place on financial returns and social impact (Höchstädter and Scheck, 2015). Impact-first impact investors place more weight on impact creation; hence, they are often willing to sacrifice some financial returns when needed and usually target below-market-rate returns. In contrast, finance-first impact investors place more weight on financial returns; hence, they are often unwilling to sacrifice financial returns and generally target risk-adjusted market-rate returns. Based on their target or actual financial returns, Big Society Capital and Kresge Foundation, for example, can be considered impact-first investors, whereas Ceniarth and Vital Capital Fund, for example, can be considered finance-first investors. We find that all these impact investors have sacrificed additional financial returns in their pandemic-focused impact investments.

Overall, this suggests that impact investors sacrifice additional financial returns in pandemic-focused impact investments where they see the potential for achieving significantly higher than usual social impact by protecting hundreds of vulnerable social economy enterprises and marginalized beneficiaries amidst the pandemic. This appears to be true for both impact-first and finance-first impact investors.

3.2. Guarantees are introduced as an innovative investment instrument to tackle the pandemic

Our second major finding is that guarantees are introduced as an innovative impact investment instrument to tackle the pandemic. In pre-COVID-19 times, guarantees were rarely used in the impact investing market and, where they were used, they were mainly issued by various government agencies (rather than impact investing firms) such as the United States Small Business Administration and other government-created finance institutions to attract private investments in targeted social economy projects (International Finance Corporation, 2019, 2020; Tekula and Andersen, 2019).

During COVID-19, guarantees are also rarely used in the impact investing market. However, a promising sign is that a few large impact investing firms have taken the lead in introducing a guarantee instrument to address pandemic-caused disruptions in social economy. For example, CDC Group (now British International Investment) provides a $50 million risk-sharing guarantee facility to Absa Bank Limited to support lending to MSMEs and households across Sub-Saharan Africa through non-banking financial institutions and microfinance institutions [Article #38]. This guarantee facility is "the first of its kind for CDC", which forms part of its COVID-19 response aiming to boost "systemic liquidity at a critical time when commercial lending is limited due to the economic challenges brought on by the pandemic" [Article #38].

Similarly, to scale up pandemic testing needs and safely reopen communities and the economy, the Rockefeller Foundation provides a $30 million financial guarantee to Thermo Fisher Scientific to procure and strategically stock up to $30 million in COVID-19 tests at a time [Article #49]. Indeed, the Rockefeller Foundation launched a special unit, RF Catalytic Capital (RFCC) unit, in September 2020 to support the pandemic-hit social economy. The above guarantee instrument is "the RFCC's first initiative" and is introduced "as a new innovative tool" in the market to "scale funding solutions and bring about transformational change during the Covid-19 response and recovery" [Article #49].

Table 2
Target (or actual) financial returns of "general" versus "pandemic-focused" impact investment for a sample of impact investors.

#	Impact investors	Headquarters	Examples of target (or actual) financial returns from "general" impact investment	Examples of target (or actual) financial returns from "pandemic-focused" impact investment
1	Big Society Capital	UK	• Its target return is 2–4% in low-growth businesses. It has much higher return expectations in high-growth businesses.	• It has launched a debt capital fund of £100 million, with no fees or interest for 12 months, to help pandemic-hit charities and social enterprises in the UK.
2	Ceniarth	USA	• It invested in an emerging market fintech fund that historically provides around 14% of annualized net return.	• It has committed $3 million loans, with zero interest for the first six months and 0.5% interest after that for two-year terms, to support nonprofits, for-profits, and hybrid organizations located in hardest-hit communities in the USA.
3	Kresge Foundation	USA	• Its median interest rate is 4% for program-related investments.	• It has waived all interest payments on its portfolio of program-related investments for six months (April 1 to September 30, 2020), thus sacrificing around $1 million interest income.
4	responsAbility Investments	Switzerland	• It has an agricultural debt fund that carries interest rates of around 8.5%.	• It launched a US $1 billion loan, with the expectation of capital preservation but no expectation on return on capital. The loan aims to support MSMEs facing the threat of closure in COVID-19 times.
5	BlueOrchard	Switzerland	• It manages a Microfinance Fund that generates an annualized return of around 4.35%.	• It invested in a COVID-19 social impact bond that will provide 0.5% annual interest.
6	Inter-American Development Bank	USA	• It launched an AUD 50 million "First Blue Bond" to support projects that contribute to the preservation of ocean and freshwater. The bond carries a coupon rate of 2.2%.	• It launched a USD 2 billion COVID-19 bond with a coupon rate of 0.875%.
7	Vital Capital Fund	Switzerland	• It aims to generate a net overall financial return (expressed in terms of IRR) of 20% on its aggregate investment in the specific venture/business.	• It offers a concessionary debt facility of $10 million for pandemic-hit African social enterprises. This debt facility will consider investees who may not have collateral and offer competitive interest rates based on the investee company's needs and geographic market.
8	CDC Group (now British International Investment)	UK	• Its impact investment generates an average annual return of 7.8%.	• It provides a USD 50 million loan guarantee to Absa Bank, with zero interest charge. The loan guarantees aim to boost systemic liquidity in Sub-Saharan Africa in COVID-19 times.
9	Impact Investment Exchange (IIX)	Singapore	• It generates financial returns broadly at par market rates. Its Women's Livelihood Bond offered an annual return of 5.65%.	• It is offering a revolving credit facility for the pandemic-hit MSMEs in Asia, with the expectation of capital preservation but no return on capital.
10	The Rockefeller Foundation	USA	• It invested in a climate resilience fund – Lightsmith Climate Resilience Fund, which aims to generate above-market rate returns.	• It is providing a $30 million financial guarantee with zero interest charge to Thermo Fisher Scientific to procure and strategically stock up to $30 million in COVID-19 tests at a time.

Notes: Table 2, which is prepared based on data sourced from a mix of Dow Jones Factiva database, GIIN, Company website, and other relevant websites, provides a comparison of the target (or actual) financial returns between "general" and "pandemic-focused" impact investments for a sample of ten impact investing firms. Here, "general" impact investments refer to the ones that are made without any reference to the COVID-19 pandemic. "Pandemic-focused" impact investments refer to the ones that are made with an explicit reference to the COVID-19 pandemic.

The examples of CDC Group and Rockefeller Foundation articulate the immense potential of a guarantee instrument to help revive social economy enterprises. Despite their immense potential to tackle the pandemic, guarantees are a heavily underutilized instrument. The implications of these findings are discussed in the final section.

3.3. Debt instruments continue to dominate in pandemic-focused impact investments

In pre-COVID-19 times, on average, impact investors had a strong preference for private debt (which is a relatively low-risk investment instrument) over private equity (which is a relatively high-risk investment instrument), leading to the allocation of the highest share of capital through private debt (see Mudaliar et al., 2018). That is, debt instruments tend to dominate the impact investing market in pre-COVID-19 times.

We also find that debt capital (rather than equity capital) continues to be the predominant form of investment instruments in pandemic-focused impact investments. This finding has implications for the impact investing market and social economy enterprises, which we discuss in the final section.

3.4. Developing and strengthening a supportive social impact ecosystem

Impact investors' regular (or pre-pandemic) nonfinancial work mainly involves providing technical assistance support to social economy enterprises (see Table 3). For example, MicroVest Capital Management's regular nonfinancial work includes offering business strategy development and customer engagement assistance to their investee microfinance institutions. Similarly, Acumen's regular nonfinancial work involves providing active operational support to their portfolio companies to reach their financial and impact goals. In line with their regular nonfinancial work, impact investors' pandemic-focused nonfinancial work also offers technical assistance support to social economy enterprises, which focuses on two broader areas. First, impact investors are providing technical assistance to investee companies regarding their immediate business needs to help them navigate the current crisis. For example, Acumen, Shell Foundation, and other impact investors are helping energy access companies in Africa and Asia to address the pandemic-caused liquidity crisis by providing technical assistance with liquidity planning, loan restructuring, and financial modeling [Article #1]. Second, impact investors are also providing technical assistance to investees regarding their future business needs to help them thrive

Table 3
"Regular" versus "pandemic-focused" nonfinancial work of a sample of impact investing firms.

#	Impact investors	Headquarters	Examples of "regular" nonfinancial work	Examples of "pandemic-focused" nonfinancial work
1	JP Morgan Chase	USA	• Offering skills and expertise to build the capacity of nonprofit partners (e.g., developing performance metrics).	• Providing training, education, and marketing resources to partnering institutions to tackle racial inequality in light of the pandemic. • Organizing campaigns and other activities to raise greater public awareness to promote social inclusion and support COVID-19 victims and their families.
2	CDC Group (now British International Investment)	UK	• Providing business modeling and capacity-building support to investees to improve their performance and chances of delivering impact.	• Offering technical assistance to an open-source data visualization tool - the Access Insights Platform, which delivers key insights to enable investee companies across multiple sectors to make data-informed decisions amidst the pandemic. • Working with governments in Africa and Asia to ensure that the off-grid renewable energy sector is duly considered in national policy responses to the pandemic.
3	MicroVest Capital Management	USA	• Providing business strategy development and customer engagement assistance to investee microfinance institutions.	• Offering risk management services to partnering institutions to weather the COVID-19 crisis. • Developing a coalition to ensure that debt financing in the microfinance and small and medium enterprise banking sector in developing countries is conducted in a responsible manner during the pandemic.
4	DOEN Foundation	Netherlands	• Providing advice in business operations and capital raising.	• Providing advisory support to partnering organizations to stay afloat amidst uncertainties caused by the pandemic. • Surveying low-income consumers' experience in the renewable energy sector in Africa and Asia to track how the pandemic is affecting them over time and to identify their most urgent current and future needs.
5	MacArthur Foundation	USA	• Providing governance, management, and measurement support to nonprofit organizations.	• Offering nonprofit safety and operational assistance. • Reaching out to all current investees to take stock of their hardships, and using that information to identify responsive ways of partnering with them through the crisis.
6	Acumen	USA	• Offering active, hands-on operational support to portfolio companies to reach their financial and impact goals.	• Helping energy access companies in Africa and Asia to address the pandemic-caused liquidity crisis by providing technical assistance with liquidity planning, loan restructuring, financial modeling, and capital raising. • Surveying impact investors to better understand their plan to deploy emergency capital and other resources to address the COVID-19 crisis, thus developing a comprehensive database.
7	Soros Economic Development Fund	USA	• Providing product development and market research assistance to investee companies.	• Assisting the management team of its investee organizations regarding succession planning and business strategy review. • Working with its colleagues and peers in other foundations and funds and with the leading industry network bodies to find ways to coordinate the sharing of deal flow, information, and ideas, and to collaborate to deploy capital in response to COVID-19.
8	Big Society Capital	UK	• Providing capability building and infrastructure development training to partnering organizations.	• Sharing information about new support sources available across its portfolios to help organizations consider their own actions, as well as examples of pre-emptive actions being taken to changing circumstances. • Lobbying with the UK government to ensure that government policy responses to the COVID-19 crisis are adequate to match the support needed by the charity and social enterprise sector.
9	Shell Foundation	UK	• Supporting portfolio companies to replicate and scale their business models.	• Commissioning research to understand the implications of COVID-19 on SDG7 and highlight opportunities for effective interventions. • Delivering a steady flow of market insight to donors, policymakers, and social investors in the energy and health sectors to inform their decisions in light of the pandemic.
10	Village Capital	USA	• Offering investment-readiness programs for impact-driven, early-stage startups	• Providing a tailored recommendation to investors to identify and support impact-driven companies amidst the pandemic. • Developing a COVID-19 coalition to help match impact investors and social entrepreneurs responding to COVID-19.

Notes: Table 3, which is prepared based on data sourced from a mix of Dow Jones Factiva database, GIIN, Company website, and other relevant websites, provides a comparison of "regular" and "pandemic-focused" nonfinancial work of a sample of ten impact investing firms. Here, "regular" nonfinancial work refers to the nonfinancial activities undertaken by impact investors without any reference to the COVID-19 pandemic. "Pandemic-focused" nonfinancial work refers to the nonfinancial activities undertaken by impact investors with an explicit reference to the COVID-19 pandemic.

post-crisis. For example, Soros Economic Development Fund is assisting the management team of its investee organizations regarding succession planning and business strategy review [Article #36].

However, in addition to offering technical assistance, impact investors' pandemic-focused nonfinancial work emphasizes ecosystem building activity (Islam, 2022c; Roundy and Lyons, 2022) that involves three major types of work: intelligence, coalition, and advocacy. Intelligence work is being performed at three levels. First, at the investor level, intelligence work is mainly focused on mapping out what funding is available in the impact investing industry for crisis-hit social economy enterprises. For example, USAID, Open Road Alliance, and Acumen are surveying impact investors to better understand their plan to deploy emergency capital and other resources to address the COVID-19 crisis [Article #23]. Second, at the investee level, impact investors are collecting intelligence to better comprehend the effect of the pandemic on the investee organizations, and using such intelligence to design their support efforts. For example, MacArthur Foundation in the USA is reaching out to all current investees to take stock of their hardships, and using that information to identify responsive ways of partnering with them through the crisis [Article #13]. Third, impact investors are also doing their intelligence work at the beneficiary level, mainly focusing on supporting and protecting vulnerable beneficiaries amidst the pandemic. For example, DOEN Foundation, CDC Group, and others are surveying low-income consumers' experiences in the renewable energy sector in Africa and Asia to track how the pandemic is affecting them over time and to identify their most urgent current and future needs [Article #1].

Coalition work represents another major form of impact investors' ecosystem building activity, where they build a formal/informal alliance with other investors/investees to tackle the pandemic-induced problems. Some coalitions are focused on a specific purpose. For example, Village Capital and Sorenson Impact Foundation have launched a coalition of active impact investors and innovative social economy enterprises to facilitate a quick impact investment deal to tackle the pandemic [Article #20]. In addition to developing specific-purpose coalitions, impact investors are working on developing general-purpose coalitions. For example, Open Road Alliance is seeking interest from impact investors worldwide to develop a general-purpose coalition, which will facilitate wide-ranging collaborations among impact investors to support the pandemic-hit social economy enterprises [Article #25].

Finally, as part of their ecosystem building activity, investors are undertaking advocacy work at three levels. First, at the government level, impact investors are influencing public policymakers to develop government policy responses to COVID-19 in favor of a specific social economy. For example, Shell Foundation, CDC Group, and others are working with governments in Africa and Asia to ensure that the off-grid renewable energy sector is duly considered in national policy responses to the pandemic [Article #1]. Second, at the investee level, impact investors are influencing their portfolio companies to protect the wellbeing of their workforces amidst the pandemic. For example, Domini Impact Investments and others are using shareholder advocacy to influence their investee companies to protect their workers by taking all possible steps to retain workers and offering employers-paid health insurance for laid-off workers [Article #24]. Third, impact investors also undertake advocacy work at the beneficiary level, aiming to support and protect vulnerable beneficiaries and communities disproportionately affected by the pandemic. For example, JP Morgan Chase, and other partnering institutions are organizing campaigns and other activities to raise greater public awareness to support COVID-19 victims and denounce systemic social bias against marginalized communities such as Asian, Black, Latinx, and LGBTQ people [Article #26].

4. Discussion and conclusion

This study examines how impact investors are responding to sustain and grow social economy enterprises amidst the COVID-19 pandemic. We find that impact investors sacrifice additional financial returns in pandemic-focused impact investments where they see the potential for achieving significantly higher than usual social impact by protecting hundreds of vulnerable social economy enterprises and beneficiaries amidst the pandemic. This has implications for the literature discussing the trade-off between financial returns and social impact in impact investing. Prior literature (Barber et al., 2021; Schrötgens and Boenigk, 2017) shows that for general impact investments, impact investors are willing to sacrifice up to a certain limit of financial returns for achieving social impact. Our evidence suggests that the level of such sacrifice increases further in pandemic-focused impact investments where investors see the potential for attaining significantly higher than usual social impact.

We also find that both impact-first and finance-first impact investors sacrifice additional financial returns in their pandemic-focused impact investments. That is, in response to the pandemic, the impact investing market appears to have shifted more towards the impact-first side[4] of the continuum, which is promising for revitalizing pandemic-hit social economy enterprises. However, such a market shift is *unlikely* to be a permanent feature of the impact investing market in normal times (i.e., non-crisis times). This is because different impact investing firms (be they impact-first or finance-first) have different sets of stakeholders (e.g., original capital providers expecting below-market-rate returns versus risk-adjusted market-rate returns), different mottos (e.g., impact-return trade-off a good versus bad thing for the overall market), and different control and governance mechanisms (e.g., more versus less competitive compensation structure), which largely influence their regular investment practices (Brest and Born, 2013; Hehenberger et al., 2019; Islam, 2022b). It is very unlikely that the pandemic will lead impact investing firms to suddenly disregard their deep-rooted, regular investment practices. Hence, in future non-crisis times, both impact-first and finance-first impact investors are unlikely to sacrifice the additional financial returns that they have sacrificed in their pandemic-focused impact investments. In other words, they are more likely to resume their usual financial return expectations post-pandemic.

Our study also advances the limited discussion available on guarantee instruments in impact investing (International Finance Corporation, 2019, 2020; Tekula and Andersen, 2019) by documenting their use during pandemic times. We show that guarantees are introduced as an innovative impact investment instrument to tackle the pandemic. A guarantee instrument enables impact investors (through leveraging their large balance sheets) to reduce the risk profile of pandemic-hit social economy enterprises so that they can access to commercial loans at a low interest rate, which they would have been unable to access otherwise. While a guarantee facility can provide several benefits, it is a highly risky, costly, and complex instrument that requires a lot of organizational resources to design and implement appropriately. Hence, it is unsurprising that only a few larger and more resourceful impact investing firms, such as CDC Group (with *total net assets* of about GBP 7.7 billion in 2021)[5] and the Rockefeller Foundation (with *total net assets* of around

[4] The impact investing market can be said to have shifted more towards the impact-first side when both impact-first and finance-first impact investors place more weight on social impact (rather than financial returns). This can be manifested when both groups of impact investors sacrifice additional financial returns.

[5] https://assets.bii.co.uk/wp-content/uploads/2022/07/05074646/BII-Annual-Accounts-2021.pdf.

US$6.8 billion in 2021)[6] have used a guarantee instrument to address the pandemic-caused systemic liquidity crisis in social economy enterprises. Being an impact-first instrument (i.e., high risk and low returns), a guarantee facility would be more suitable for impact-first impact investors. However, many impact-first impact investors may not be as large and resourceful as CDC Group and the Rockefeller Foundation to implement a costly and complex instrument like a guarantee facility and to withstand the financial loss resulting from it in the event of non-payment by the investee enterprises. Hence, despite its immense potential to help revive social economy enterprises, a guarantee instrument is likely to remain underutilized due to the sheer amount of risk, cost, and complexity involved in operationalizing it in the market.

Another insight is that debt instruments that dominate in general impact investments (see Mudaliar et al., 2018) continue to dominate in pandemic-focused impact investments. This observation is problematic because social economy enterprises are the ones that have been hardest hit by pandemic-induced disruptions (OECD, 2020; Social Enterprise UK, 2020). Therefore, many of them may not be eligible for loans due to their deteriorating financial health. Furthermore, many social economy enterprises may be fearful of taking on more debt, since they already have a high debt level and/or are uncertain about the revenue generation needed to service debt in uncertain business environments (Cowley and Hsu, 2020). We suggest that to better help the recovery of pandemic-hit social economy enterprises, impact investors need to use more equity instruments. This is because, unlike debt instruments, equity instruments do not place an obligation on social entrepreneurs to pay fixed returns (i.e., interest amounts) to investors at regular intervals, thus offering them greater flexibility to revive their enterprises by adjusting their business models in light of changing business environments.

Having said that, even though impact investors want to use more equity instruments to better support crisis-hit social economy enterprises, they may not be able to do so in many places due to legal and other system-related constraints. For example, due to the lack of a dedicated legal structure, a large number of social economy enterprises in many countries are registered as a charity, preventing them from accepting traditional equity investments. Consider the case of New Zealand. As of 2021, New Zealand has around 28,000 social economy enterprises registered as a charity; hence, they do not have access to traditional equity investments to support their growth as they are legally prohibited from paying returns to equity investors. We suggest that, in most countries, to increase the use of equity instruments to support the social economy enterprises post-pandemic, a good way forward would be to create a dedicated legal structure for these enterprises (e.g., the Community Interest Company in the UK and the Community Contribution Company in Canada),[7] which will allow them to accept equity investments and yet impose a limit on dividend distribution to preserve their social mission.

This study also provides insights into impact investors' nonfinancial work. Prior literature shows that impact investors' nonfinancial work mainly involves providing technical assistance to social economy enterprises (Ingstad et al., 2014; Mayer and Scheck, 2018). We find that, unlike their regular nonfinancial work, impact investors' pandemic-focused nonfinancial work is not typically limited to technical assistance offerings. Instead, a major focus of their pandemic-focused nonfinancial work remains on ecosystem building activity (Gamble and Muñoz, 2021; Islam, 2020b) that involves undertaking intelligence, coalition, and advocacy work targeting both portfolio and nonportfolio social economy enterprises, their beneficiaries, and other impact investors. This observation is true for both impact-first (e.g., DOEN Foundation seeks below-market-rate returns) and finance-first (e.g., MicroVest Capital seeks risk-adjusted market-rate returns) impact investing firms. This suggests that, in response to an acute crisis (e.g., COVID-19), impact investors emphasize developing and strengthening a supportive social impact ecosystem.

Finally, we contribute to the literature on the evolution of the impact investing market (Hehenberger et al., 2019; Tekula and Andersen, 2019) by providing an account of the evolution of the market during pandemic times and by explaining how it might evolve post-pandemic. During pandemic times, impact investors provide *additional* financial (i.e., sacrificing additional financial returns) and nonfinancial (i.e., emphasizing ecosystem development activity) support to revive the pandemic-hit social economy enterprises. This might be driven by a mix of two logics. First, during crisis times, a strong altruistic logic is present in that the urgency to support crisis-hit enterprises is more visible. Second, during crisis times, a strong legitimacy logic is also present in that there are more opportunities for investors to gain significant legitimacy in the market through expansive media coverage for their crisis support activities. Hence, we argue that in future crisis times, impact investors are also likely to provide *additional* financial and nonfinancial support to social economy enterprises. However, in non-crisis times, the urgency to support social economy enterprises is less evident (i.e., the absence of a strong altruistic logic), and there are fewer opportunities for investors to gain significant legitimacy through receiving wide media coverage (i.e., the absence of a strong legitimacy logic). Hence, in post-pandemic normal times, impact investors are likely to provide only *usual* (rather than *additional*) financial and nonfinancial support to social economy enterprises.

However, the level of *usual* financial and nonfinancial support that impact investors will provide to social economy enterprises in *post-pandemic* normal times is likely to be *higher* to some extent than *pre-pandemic* normal times due to a potential positive ripple effect of ecosystem building activity undertaken during pandemic times. For example, the advocacy work undertaken during pandemic times to influence government policy responses to COVID-19 in favor of a specific social economy (e.g., the off-grid renewable energy sector in Africa) is likely to reduce systemic barriers persisting in the focal social economy, thus providing impact investors more opportunities to offer greater post-pandemic support to social economy enterprises. Similarly, the intelligence work carried out during pandemic times (e.g., taking stock of social economy enterprises' hardships) is likely to provide impact investors a lever to better design their post-pandemic support efforts.

[6] https://www.rockefellerfoundation.org/wp-content/uploads/2022/07/2021-The-Rockefeller-Foundation-Financial-Statements.pdf.

[7] https://www.communitycompanies.co.uk/community-interest-companies; https://www.centreforsocialenterprise.com/community-contribution-companies/.

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Author contribution

Syrus Islam: Conceptualization, Data Collection, Formal Analysis, Writing – Original Draft, Writing – Reviewing and Editing. Ahsan Habib: Conceptualization, Validation, Writing – Reviewing and Editing.

Declaration of competing interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

Appendix 1. A sample data article

-CDC Group provides $50m risk sharing facility to Absa to support lending to MSMEs and households through Microfinance and Non-Bank Financial Institutions in Africa
- CDC Group's first risk sharing facility supporting local currency medium- and longer-term lending to MFIs and NBFI
- Boosts systemic liquidity in a highly credit-constrained environment and offers financial support to MSMEs and households in hard-to-reach markets

CDC Group, the UK's development finance institution (DFI) and impact investor, today announces a new US$50 million risk-sharing facility with Absa Bank Limited (Absa). The commitment increases Absa's capacity to offer financing solutions to Micro, Small and Medium Enterprises (MSMEs) and households across Sub-Saharan Africa through Microfinance Institutions & Non-Bank Financial Institutions (MFI & NBFIs). This MFI and NBFI risk sharing facility is the first of its kind for CDC – supporting lending to these institutions (through credit risk mitigation) and allowing them to better serve households and MSMEs across Africa. The facility will enable Absa to deploy significant sums of capital and provide vital assistance to businesses and households in need of finance, helping them remain resilient and emerge from the crisis. Moreover, **the investment forms part of CDC's COVID-19 response and boosts systemic liquidity at a critical time when commercial lending is limited due to the economic challenges brought on by the pandemic** [emphasis added].

This investment bolsters Absa's strategy to promote responsible lending practices among MFIs & NBFIs in its portfolio and highlights opportunities within the financial inclusion segment – sending a positive signal to commercial banks to increase their lending to this segment of the economy where considerable funding needs remain unmet.

CDC has a long relationship with Absa, Sub-Saharan Africa's third-largest bank, and this latest investment reinforces the partnership between both institutions. This facility builds on the existing trade finance partnership, helping to enhance access to funds in the markets, facilitate increased trading of goods and services, and deepen financial inclusion among underserved communities and individuals across Africa's markets.

Stephen Priestley, Managing Director, Head of Financial Services, at CDC Group, said: "We are thrilled to once again partner with Absa. This is CDC's first risk-sharing facility that provides a local currency solution to MSMEs and local households. We are confident that CDC's counter-cyclical funding will provide much needed support to local financial institutions by diversifying their funding base and enhancing their ability to provide smaller loans to local businesses and hard-to-reach communities. CDC remains committed to ensuring that businesses and people have greater access to the financial support needed to enable them to grow and remain resilient throughout the crisis."

Anand Naidoo, Managing Executive: Client Coverage, Absa Corporate and Investment Banking said: "We are proud to have built this partnership with CDC, which does not only bring value to the relationship but is also aligned to our overall business strategy. This facility is another proof point in the execution of our shared growth strategy which focuses on providing finance and assisting clients to achieve sustainable economic growth in the markets where we operate.

> "The framework details the use of proceeds, the process for project evaluation and selection, the ongoing management of proceeds as well as the reporting and transparency. There is a definite trend from global investors to invest in more socially responsible projects and companies because they want to see that their funds are being invested in activities that promote sustainable economic growth."

About CDC

1. CDC Group is the UK's first impact investor with over 70 years of experience of successfully supporting the sustainable, long-term growth of businesses in South Asia and Africa.
2. CDC is a leading player in the fight against climate change and a UK champion of the UN's Sustainable Development Goals – the global blueprint to achieve a better and more sustainable future for us all.
3. The company has investments in over 1200 businesses in emerging economies and a total portfolio value of $6.2bn. This year CDC will aim to invest over $1.75bn in companies in Africa and Asia with a focus on fighting climate change, empowering women and creating new jobs and opportunities for millions of people.

4. CDC is funded by the UK government and all proceeds from its investments are reinvested to improve the lives of millions of people in Africa and South Asia.
5. CDC's expertise makes it the perfect partner for private investors looking to devote capital to making a measurable environmental and social impact in countries most in need of investment.

About Absa Group Limited

Absa Group Limited ('Absa Group') is listed on the Johannesburg Stock Exchange and is one of Africa's largest diversified financial services groups.

Absa Group offers an integrated set of products and services across personal and business banking, corporate and investment banking, wealth and investment management and insurance.

Absa operates in 14 countries. The Group owns majority stakes in banks in Botswana, Ghana, Kenya, Mauritius, Mozambique, Seychelles, South Africa, Tanzania (Absa Bank Tanzania and National Bank of Commerce), Uganda and Zambia and has insurance operations in Botswana, Kenya, Mozambique, South Africa and Zambia. Absa also has representative offices in Namibia and Nigeria, and securities entities in the United Kingdom and the United States.

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